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FISCAL IMPACT STATEMENT

LS 7045

BILL NUMBER: HB 1188

NOTE PREPARED: Feb 3, 2004

BILL AMENDED: Feb 2, 2004

SUBJECT: Pull Tabs.

FIRST AUTHOR: Rep. Reske

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill authorizes the sale of pari-mutuel pull tabs at race tracks and satellite facilities in Fort Wayne and Indianapolis. The bill imposes a Wagering Tax of 33% and provides for tax distributions within Madison County and Shelby County. The bill requires permit holders to execute financial agreements with the respective cities in order to operate a satellite facility with pull tabs in Fort Wayne and Indianapolis. The bill also provides funding to horsemen with a Promotion Fee charged to the permit holders and provides for revenue sharing. The bill establishes the State Pull Tab Wagering Fund, the Local Capital Projects Fund, the Education Reserve Fund, and the Minority and Women Business Participation Fund. The bill also makes other changes concerning race tracks and satellite facilities.

Effective Date: (Amended) July 1, 2004.

Summary of Net State Impact: (Revised) The estimated state General Fund impact of the bill is summarized below in Table 1. The bill appropriates \$30.0 M in both FY 2005 and FY 2006 from the General Fund to the Local Capital Projects Fund established by the bill. The bill also distributes to the state General Fund: (1) revenue from the Pull Tabs Wagering Tax established by the bill; and (2) Riverboat Admission Tax revenue replaced by the Horse Racing Promotion Fee established by the bill. Assuming a 12- to 15-month start-up period, it is estimated that no tax or fee revenue will be generated in FY 2005 and about 9-months of revenue will be generated in FY 2006.

Table 1: State General Fund Impact

	FY 2005	FY 2006
General Fund Revenue	\$0.0	\$50.5 M - \$71.0 M
General Fund Expenditures	\$30.0 M	\$30.0 M
Net Increase (Decrease)	(\$30.0 M)	\$20.5 M - \$41.0 M

The estimated annual revenue impact to the state from pari-mutuel pull tab taxes and fees established in the bill is summarized in Table 2 below.

Table 2: Annual State Revenue Impact from Pari-Mutuel Pull Tab Taxes & Fees

Distribution	Source	Est. Annual Revenue
General Fund	Pull Tab Wagering Tax	\$41.4 M - \$58.4 M
General Fund	Riverboat Admission Tax	\$27.2 M
Total - General Fund		\$68.6 M - \$85.6 M
Clean Water Indiana Fund	Pull Tab Wagering Tax	\$2.4 M - \$3.8 M
Minority & Women Participation Fund	Minority & Women Participation Fee	\$120,000
Total - All Funds		\$71.1 M - \$89.5 M

The bill also provides for two fees to be paid to the Indiana Horse Racing Commission (IHRC): the Horse Racing Promotion Fee paid by pari-mutuel pull tab license holders and the Annual Supplemental Fee paid by pari-mutuel horse racetrack permit holders. The bill requires the proceeds from these fees to be distributed by the IHRC to various horse racing industry functions and organizations. The estimated annual revenue impact of these two fees is summarized in Table 3 below.

Table 3: Annual Fees to Horse Racing Industry

Source	Est. Annual Revenue
Horse Racing Promotion Fee	\$25.9 M - \$42.0 M
Annual Supplemental Fee	\$500,000
Total	\$26.4 M - \$42.5 M

Explanation of State Expenditures: (Revised) *Appropriations:* The bill appropriates \$30.0 M in both FY 2005 and FY 2006 from the state General Fund to the Local Capital Projects Fund established by the bill. Beginning in FY 2007, the bill appropriates \$30.0 M annually to the Education Reserve Fund established by the bill.

Local Capital Projects Fund: The Local Capital Projects Fund is a nonreverting fund consisting of interest, appropriations, and revenue from the Pull Tabs Wagering Tax. It is estimated that in initial years of pull tab operations, revenue from the Wagering Tax will not be sufficient to make distributions to this Fund. The

money in the Fund is to be utilized to pay for Build Indiana Fund (BIF) local capital projects for which appropriations were made prior to December 31, 2001, but have not been approved for funding by the Budget Committee. BIF local capital project appropriations totaling \$63.6 M are currently suspended as part of the Governor's 2002 Deficit Management Plan. Thus, the appropriations to the Local Capital Projects Fund would cover all but \$3.6 M in suspended local projects. The remainder potentially could be funded from the ending balance in BIF estimated to total about \$13.8 M annually beginning in FY 2005.

Education Reserve Fund: The Education Reserve Fund is a nonreverting fund consisting of interest, appropriations, and revenue from the Pull Tabs Wagering Tax. The money in the Fund is to be utilized for educational purposes. The bill prohibits expenditure of money in the Fund unless the General Assembly appropriates money from the Fund.

Indiana Gaming Commission (IGC): The bill requires the IGC to regulate and administer pari-mutuel pull tab operations. The IGC would incur additional administrative expenses as a result. However, the bill requires that the holder of a pull tab license or supplier's license bear the cost of any investigation by the IGC relating to the licensee. Also, the bill allows the IGC to impose an administrative fee on race track or satellite facility permit holders offering pull tab games in an amount that allows the IGC to recover the costs of administering pari-mutuel pull tabs.

Purchasing Goals: The bill establishes minority and women's business purchasing goals for pari-mutuel permit holders who sell pari-mutuel pull tabs. It places responsibility for enforcement of these requirements under the IGC. Currently, the IGC administers similar requirements for riverboats. The bill also establishes the Minority and Women Business Participation Fund to be administered by the IGC. Under the bill, the Fund contains fines for violations of the minority and women business purchasing requirements and an annual fee of \$30,000 imposed on each horse racetrack and on each satellite facility selling pull tabs. The Department of Administration may use fee money in the Fund to hire employees to administer the purchasing goals program. Otherwise, the money in the Fund is to be used to assist women and minority business enterprises. Expenses of administering the Fund must be paid from money in the Fund. The bill provides that money in the Fund is annually appropriated for these purposes.

Withholding on Pull Tab Winning: The Department of State Revenue (DOR) would incur some administrative expenses relating to withholding requirements for pari-mutuel pull tab winnings. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: (Revised) *Pari-mutuel Pull Tabs:* The bill authorizes the sale of pari-mutuel pull tabs at Hoosier Park, Indiana Downs, and satellite facilities in Indianapolis and Ft. Wayne. The bill limits the number of electronic pull tab terminals or devices that may be installed to 1000 at each horse racetrack; and 1,500 at each satellite facility. The bill imposes a Wagering Tax and a Horse Racing Promotion Fee on pull tab adjusted gross (wagering) receipts. It is estimated that the Wagering Tax imposed at the four facilities could potentially generate a total of \$65.7 M to \$106.6 M annually. It is also estimated that the Promotion Fee from the four facilities could potentially generate a total of \$25.9 M to \$42.0 M annually. Assuming a 12- to 15-month startup period, tax revenue could potentially begin in FY 2006. It is important to note that the bill prohibits the IGC from licensing pari-mutuel pull tab operations in Ft. Wayne until city voters have approved pull tab sales. The bill requires the referendum to be held in Ft. Wayne at the 2004 general election.

Caveats: The fiscal estimates are not adjusted to account for the potential negative effect that riverboat gaming operations may have on wagering at pari-mutuel pull tab facilities located in central Indiana and Ft. Wayne. Thus, actual Wagering Tax revenue could potentially be less than estimated to the extent that these facilities share their markets with riverboat casinos. In addition, the fiscal estimates do not account for

potential decline in Admission and Wagering Tax revenue at the riverboat casinos due to the pari-mutuel pull tab operations in central Indiana and Ft. Wayne. These potential competitive impacts on the fiscal outcomes are indeterminable.

Wagering Tax: The bill imposes a Wagering Tax on pari-mutuel permit holders selling pull tabs at racetracks or satellite facilities. The tax is 33% of the annual adjusted gross receipts (AGR) on pull tab sales by each permit holder. AGR from the four facilities is estimated to range from \$200 M to \$323 M. These estimated AGR totals would generate about \$65.7 M to \$106.6 M in Wagering Tax revenue. Of this total, \$60.3 M to \$95.6 M would be allocated to the state. The first 4% of this total is to be distributed to the Clean Water Indiana Fund. After the Clean Water distribution, 50% of the remainder plus an additional \$12.5 M is distributed to the state General Fund. The remaining amounts, up to a maximum of \$53.0 M annually, are to be used for local revenue sharing. Any such amounts exceeding this \$53.0 M annual limit are to be distributed as follows: (1) 25% for supplemental revenue sharing; and (2) 75% to the Local Capital Projects Fund in FY 2005 and FY 2006, and to the Education Reserve Fund beginning in FY 2007. Once all four pull tab facilities are operating, the distribution to the Clean Water Indiana Fund is estimated at about \$2.4 M to \$3.8 M annually. The state General Fund distribution is estimated to total about \$41.4 M to \$58.4 M annually. The local revenue sharing distribution is estimated to total about \$16.4 M to \$33.4 M annually.

Horse Racing Promotion Fee: In addition to the Wagering Tax, the bill imposes a Horse Racing Promotion Fee of 13% on pull tab AGR. This fee is estimated to generate \$25.9 M to \$42.0 M annually. Revenue from the Promotion Fee would be distributed to the Indiana Horse Racing Commission (IHRC) and would replace, dollar-for-dollar, the Riverboat Admission Tax revenue currently distributed to the IHRC. The bill requires the Admission Tax revenue replaced by the Promotion Fee to be distributed to the state General Fund. The replaced Admission Tax revenue to the state General Fund could potentially total \$27.2 M once all four pull tab facilities are operating. The bill requires the IHRC to distribute 81% of the Promotion Fee revenue to purses and the horsemen's associations, and 19% to the breed development funds. The total to purses and horsemen's association would be distributed as follows: (1) 46% for thoroughbred purposes; (2) 46% for standardbred purposes; and 8% for quarterhorse purposes. The total to the breed development funds would be distributed as follows: (1) 46% to thoroughbred breed development; (2) 46% to standardbred breed development; and (3) 8% to quarterhorse breed development.

Annual Supplemental Fee: The bill requires the Horse Racing Commission to impose an annual fee of \$250,000 on each pari-mutuel permit holder. The bill requires 50% of the annual revenue from the fee to be used for training facilities and capital improvements, including stall improvements. The bill requires the remaining 50% in fee revenue to be used to promote live racing at county and 4-H fairgrounds.

License Fees: The bill provides for a pari-mutuel pull tab license and a pari-mutuel pull tabs supplier's license. The initial pull tab license would be effective for 5 years. The annual renewal fee would be determined by the Indiana Gaming Commission. The annual fee for a supplier's license would be \$5,000. The bill requires a person to obtain a supplier's license to furnish pari-mutuel pull tab terminals or devices in Indiana. The license fee revenue will be minimal as there will be only two pull tabs licensees, and the number of suppliers necessary to provide 4,500 pull tab terminals to four facilities is minimal.

Existing Pari-Mutuel Admission Tax: Revenue from the existing \$0.20 Pari-mutuel Admissions Tax could potentially increase if pari-mutuel pull tab sales serve to increase paid attendance. Currently, admission is charged at Hoosier Park and Indiana Downs. Under current statute, 50% of the tax is distributed to the state General Fund. The impact from Hoosier Park could potentially total \$52,000 to \$139,000 annually, with 50% (\$26,000 to \$69,500) being distributed to the state General Fund. The potential impact from Indiana Downs is currently indeterminable.

Fiscal Impact Details: The fiscal impact is based on a range of estimates of the number of patrons purchasing pull tabs at potential facilities. The estimates are based on patron growth rates observed at Iowa racing venues after the installation of slot machines in 1995. Reported and imputed patron totals for existing facilities are utilized to develop estimates for operations at Hoosier Park and satellite facilities in Indianapolis and Ft. Wayne. Patronage in Indianapolis is adjusted to account for the impact of tourism. The Hoosier Park estimate is scaled down to derive an estimate for operations at Indiana Downs based on projections by gaming industry analysts. It is assumed that the AGR per patron equals \$65 to derive AGR totals for the locations.

Withholding on Pull Tab Winnings: The bill requires permit holders selling pari-mutuel pull tabs to withhold and remit to the Department of State Revenue Adjusted Gross Income (AGI) Tax on pull tab winnings of \$1,200 or more. The bill requires withholding even if federal tax withholding is not required. The bill also requires payment of withholdings on a next (business) day basis. Under current statute, the same withholding requirement applies to riverboat owners for certain winnings. This requirement could potentially generate AGI Tax revenue that would otherwise not be collected from nonresidents gambling at Indiana pari-mutuel pull tab facilities. However, the precise impact of this requirement is indeterminable at this time. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Penalties: The bill makes it a Class A misdemeanor for a person to knowingly or intentionally aid, induce, or cause a person less than 21 years of age and who is not an employee of a riverboat to enter or attempt to enter a riverboat. It also makes it a Class A misdemeanor for a person who is less than 21 years of age and who is not an employee of a riverboat to knowingly or intentionally enter or attempt to enter a riverboat.

If additional court cases occur and fines are collected, revenue to both the Common School Fund and the state General Fund would increase. The maximum fine for a Class A misdemeanor is \$5,000. Criminal fines are deposited in the Common School Fund.

If the case is filed in a circuit, superior, or county court, 70% of the \$120 court fee that is assessed and collected when a guilty verdict is entered would be deposited in the state General Fund. If the case is filed in a city or town court, 55% of the fee would be deposited in the state General Fund.

Summary of Net Local Impact: (Revised) The estimated annual impact to the local units from pari-mutuel pull tab taxes is summarized in Table 4 below. Revenue from local incentive agreements between racetrack permit holders and Indianapolis and Ft. Wayne is indeterminable.

Table 4: Annual Local Revenue Impact from Pari-Mutuel Pull Tab Taxes

Distribution	Source	Est. Annual Revenue
Local Revenue Sharing	Pull Tab Wagering Tax	\$16.4 M - \$33.4 M
Madison County Local Units	Pull Tab Wagering Tax	\$3.9 M - \$7.9 M
Shelby County Local Units	Pull Tab Wagering Tax	\$1.6 M - \$3.1 M
Total - Local Units		\$21.9 M - \$44.4 M

Explanation of Local Expenditures: (Revised) *Ft. Wayne Pull Tabs Referendum:* The bill provides for the Allen County Election Board to place the question of whether the sale of pari-mutuel pull tabs should be allowed in Ft. Wayne. The bill requires the question to be placed on the ballot in Ft. Wayne during the 2004

general election.

Penalties: A Class A misdemeanor is punishable by up to one year in jail. The average daily cost to incarcerate a prisoner in a county jail is approximately \$44.

Explanation of Local Revenues: (Revised) *Pari-Mutuel Pull Tabs:* The bill authorizes the sale of pari-mutuel pull tabs at Hoosier Park, Indiana Downs, and satellite facilities in Indianapolis and Ft. Wayne. The bill limits the number of electronic pull tab terminals or devices that may be installed to 1000 at each horse racetrack and 1,500 at each satellite facility. The bill also imposes a flat rate Wagering Tax on pull tab receipts. Estimated revenue from the Wagering Tax imposed at the four facilities could potentially total \$65.7 M to \$106.6 M annually. Assuming a 12- to 15-month startup period, tax revenue could potentially begin in FY 2006. Under the bill, 30% of the Wagering Tax revenue generated at Hoosier Park is distributed to local units in Madison County; and 30% of the Wagering Tax revenue generated at Indiana Downs is distributed to local units in Shelby County. The estimated local distribution could potentially total \$3.9 M to \$7.9 M annually in Madison County and \$1.6 M to \$3.1 M in Shelby County. The percentage distribution shares to the local units in each county are presented in the two tables below. **However, the bill provides that during the first year of pull tab sales in Madison County, the first \$150,000 in Wagering Tax revenue is to be distributed to a shelter for victims of domestic violence in Madison County before other distributions are made. In addition, the bill provides that charter schools in Madison County and Shelby County are to receive funds from the Wagering Tax distributed to school corporations in those counties.**

Distribution Shares for Madison County Local Units

Recipient	% Distribution
Madison County Economic Development Council	35%
Anderson	15%
Madison County School Corporations (divided on a pro rata basis according to enrollment)	20%
Madison County Capital Projects Fund	15%
Madison County Cities & Towns excluding Anderson (divided on a per capita basis)	15%

Distribution Shares for Shelby County Local Units

Recipient	Distribution
Shelby County	40%
Shelbyville	40%
Shelby County School Corporations (divided on a pro rata basis according to enrollment)	20%

Incentive Agreements: The bill requires the racetrack permit holders to enter into an incentive agreement with the mayor of Indianapolis or of Ft. Wayne, respectively, to obtain a pull tabs license for the satellite facilities

in each of those cities.

The incentive agreement entered into by the city of Indianapolis must provide for a lump sum payment to be allocated as follows: (1) 40% for any purpose as determined by the mayor; (2) 25% to the Marion County Housing Trust Fund; (3) 25% to Marion County school corporations for capital projects according to need as determined by the mayor; and (4) 10% for public safety and Indianapolis Public Transportation Corporation operations. The agreement also must provide for ongoing payments to be allocated as follows: (1) 75% for any purpose as determined by the mayor; and (2) 25% to be used for the purposes outlined in (2) through (4) above. The incentive agreement entered into by the city of Ft. Wayne must allocate money received as follows: (1) 50% to be divided on a per capita basis between Ft. Wayne and Allen County; and (2) 50% to the Allen County Capital Improvement Board.

Local Revenue Sharing: The bill sets aside revenue from the Wagering Tax for local revenue sharing to be distributed on a per capita basis to counties not containing a riverboat casino or a satellite facility selling pari-mutuel pull tabs. The bill requires each county's total distribution to be divided on a per capita basis between the county, and the cities and towns within the county. Once all four pull tab facilities are operating, the local revenue sharing distribution is estimated to total about \$16.4 M to \$33.4 M annually.

Existing Pari-Mutuel Admission Tax: Revenue from the existing \$0.20 Pari-mutuel Admissions Tax could potentially increase if pari-mutuel pull tab sales serve to increase paid attendance. Currently, admission is charged at Hoosier Park and Indiana Downs. Under current statute, 50% of the tax is distributed in equal shares to the city and county in which the race track is located. The impact from Hoosier Park could potentially total \$52,000 to \$139,000 annually, with 50% (\$26,000 to \$69,500) being distributed in equal shares to Anderson and Madison County. The potential impact from Indiana Downs is currently indeterminable.

Penalties: If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from the following sources: (1) The county general fund would receive 27% of the \$120 court fee that is assessed in a court of record. Cities and towns maintaining a law enforcement agency that prosecutes at least 50% of its ordinance violations in a court of record may receive 3% of court fees. If the case is filed in a city or town court, 20% of the court fee would be deposited in the county general fund and 25% would be deposited in the city or town general fund. (2) A \$3 fee would be assessed and, if collected, would be deposited into the county law enforcement continuing education fund. (3) A \$2 jury fee is assessed and, if collected, would be deposited into the county user fee fund to supplement the compensation of jury members.

State Agencies Affected: Indiana Gaming Commission, Indiana Horse Racing Commission, State Department of Revenue, State Educational Institutions, Department of Workforce Development, Department of Education, State Budget Agency, State Budget Committee, Treasurer of State.

Local Agencies Affected: Indianapolis, Ft. Wayne, and local units in Madison County and Shelby County. Trial courts, local law enforcement agencies.

Information Sources: *Monthly Summary of Wagering and Admission Tax*, Indiana Gaming Commission. Indiana Sheriffs' Association, Department of Correction.

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